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UNCLAS SECTION 01 OF 04 TIRANA 000313

SIPDIS

SENSITIVE
SIPDIS

MCC FOR AMBASSADOR DANILOVICH
DEPT FOR EUR/SCE (BENEDICT/SAINZ)
NSC FOR BRAUN
TREASURY FOR ATUKORALA

E.O. 12958: N/A
TAGS: EAID ECON KMCA OTRA AL
SUBJECT: SCENESETTER FOR MCC VISIT TO ALBANIA

¶1. (SBU) Summary: The new Government of Albania (GoA), led by Prime Minister Sali Berisha, took office in September 2005. Berisha's governing coalition, led by his Democratic Party, was elected largely on a campaign promise to combat endemic organized crime and corruption. The new GoA has taken some positive steps to follow through on its promise of clean government, but ultimate success will depend on the government's management skill in crafting and implementing its program, including specifically, achieving political consensus with the opposition on the major components of its program.

¶2. (SBU) Summary (Cont'd) GoA relations with the U.S. are excellent. Albania, which has been an eager ally in the GWOT, is working to achieve NATO membership, hoping for an invitation in 2008. Albania also is also working towards EU accession -- it is close to finalizing a Stability and Association Agreement with the European Commission. Ultimately, Albania's Euro-Atlantic integration aspirations will depend on how well it addresses rule of law issues and whether, by doing so, it can improve its business climate to attract outside investment to bring Albania on par economically with other NATO and EU candidate countries. End Summary.

PERCEPTIONS OF THE U.S.

¶3. (SBU) Albania is one of the most U.S.-friendly countries in the world -- a recent poll indicated that well over 90 percent of its populace held a favorable view of the United States. Albanians credit Woodrow Wilson with preserving Albania's statehood following WWI and are enormously appreciative of the U.S. led military effort in 1999 to protect ethnic Albanians in Kosovo. A popular morning DJ here begins his show with the slogan -- "Love Albania like you love the United States." Although the U.S. is neither a major trading partner nor a lead donor, our influence here is great, and USG actions receive extraordinary attention from the government, media, and citizenry.

POLITICAL OUTLOOK

¶4. (SBU) Albania took a major step toward consolidating democratic change in 2005 by holding parliamentary elections that, though not fully meeting international standards, were judged to be a step forward. After eight years in the opposition, a coalition led by the center-right Democratic Party (DP) was elected on a campaign in which it promised to fight corruption and crime and come to government with "clean hands." The transfer of power in September 2005 occurred peacefully and relatively smoothly, a welcome first in Albanian political history.

¶5. (SBU) The new GoA has taken some steps in keeping its promises to combat organized crime and corruption. There have been arrests of key organized crime figures, as well as indictments against a few former government officials on charges of corruption. The GoA has also proposed a number of notable legislative and administrative initiatives -- a stronger conflict of interest law, increased funding for witness protection programs, tougher customs enforcement, and a very tough anti-nepotism law.

¶6. (SBU) The DP's handling of some aspects of crime and corruption problems, however, has caused a ruckus in Parliament, mainly due to the DP's urging for a change of the Prosecutor General (who is politically independent from the DP government). The opposition's strategy is now aimed at making the "fight against corruption" appear to be a gambit by Berisha to settle political scores.

¶7. (SBU) To avoid giving ammunition to either side, we

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suggest you emphasize "respect for the rule of law." The GOA should be urged to focus on demonstrable results and to conduct arrests and prosecutions of high-level corrupt officials and organized criminals in a tough but fair and transparent way. For the effort against organized crime and corruption to be credible, these arrests and prosecutions cannot be seen as politically motivated.

BILATERAL ISSUES

¶8. (SBU) Albania was among the first countries to answer our calls for support in the GWOT, and its support has been unwavering. The Albanians have a contingent of 120 Commando troops in Mosul, Iraq, and 22 Special Operation Forces troops in Afghanistan. In addition, There are 68 soldiers from the Rapid Reaction Brigade in Bosnia. Overall, including troops in preparation for overseas deployments, Albania has 31 percent of its elite troops committed to the GWOT.

¶9. (SBU) The desire to join NATO (and the Euro-Atlantic community in general, including the EU) is very strong in Albania. Albania wants to receive an invitation to NATO in 2008, but we have been careful to avoid making commitments, stressing that the door is open, and that the U.S. supports Albania's aspirations, but it is Albania's achievement of necessary political, military, economic and political standards that will determine membership.

ECONOMIC ISSUES

¶10. (SBU) The GoA recently canceled a USD 80 million railway modernization contract that had been entered into between the previous government and General Electric. The World Bank and IMF had opposed the contract, claiming it was too expensive and not a spending priority for the government. The Embassy, however, supported GE's position in the matter and has since expressed "disappointment" that an important transportation infrastructure project will not go ahead.

¶11. (SBU) Albania has enjoyed excellent macroeconomic stability in recent years, with low inflation (2 to 3 percent annually the last 4 years), solid growth (6 percent

annually), and a stable currency. To date, much of Albania's growth has been fueled by remittances from abroad, mainly from emigrant workers in Greece and Italy. The main economic challenge is to improve the business climate to attract badly-needed foreign direct investment. Without substantial increases in the level of FDI, Albania will neither sustain its current growth pattern nor will it achieve the higher rates of growth needed to bring it on par with credible EU-candidate countries within the next decade.

¶12. (SBU) Although infrastructure deficiencies (especially roads and energy) are partially to blame for Albania's low-ranking on FDI in the region, the main deterrents appear to be strong perceptions of corruption and weak rule of law institutions. Although some of these perceptions are outdated and overly negative, real problems of crime and corruption remain a major deterrent to foreign investors.

¶13. (SBU) Support of American business is an increasingly important function of our mission. Lockheed Martin is undertaking a \$47 million project to modernize the air traffic system and is negotiating with the GoA for a \$17 million coastal surveillance system installation contract. General Electric has sold medical equipment to the government and is poised to invest in the energy sector to develop hydropower resources. Other U.S. affiliated firms, like AMBO Pipeline and ASG Power are contemplating billion dollar projects to increase power production and to make Albania a crucial player in the gas and crude oil pipeline network.

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REGIONAL ISSUES / KOSOVO

¶14. (SBU) Your interlocutors may mention Kosovo and regional issues. Albania has been a stabilizing presence in the Balkans, particularly on Kosovo, by discouraging extremism and cooperating with the international community. The new DP-led government has been somewhat more vocal in support of Kosovar independence. Foreign Minister Mustafaj recently roiled the waters by suggesting that other borders might change if Kosovo were to be divided a comment that was unwise at best in the current climate. Lest there be any doubt, the GoA reaffirmed that its Kosovo policy remains unchanged, as does its support for the Contact Group and international efforts to decide Kosovo's final status. We therefore recommend you express appreciation for Albania's constructive role in the region and urge continued moderation.

OTHER USG ASSISTANCE PROGRAMS

¶14. (U) Programs administered by USAID, the Department of Justice, Department of Treasury and the State Department's Public Diplomacy wing are funded under the SEED program. The FY06 SEED budget for all countries in the region was cut by Congress this year -- the current budget for Albania stands at USD 24.75 million (down from USD 28 million last year). USDA assistance was terminated in FY 2005.

¶15. (U) USAID commands the biggest slice of the SEED budget pie -- roughly USD 19 million -- and focuses its programs on four areas: Economic Development (mainly programs to make small and medium size businesses more competitive); Democratic Reforms (strengthening civil society and rule of law institutions); Health Care Reform (developing a primary health care system); and Special Initiatives (an extensive anti-trafficking program, religious harmony projects and energy sector reform).

¶16. (SBU) U.S. Security Assistance programs include FMF (FY 06 USD 3.5 million); IMET (FY06 USD 900,000); Coalition Solidarity Funding (FY05 USD 6 million); Global Peacekeeping Operations Initiative (FY06 USD 3.5 million); Peace Keeping Operations funding for operations in Iraq (FY05 USD 750,000, FY06 as needed); Humanitarian Assistance, and a number of smaller programs.

¶17. (SBU) The U.S. is spending USD 35 million through the Nunn-Lugar Cooperative Threat Reduction program to destroy Albania's Communist-era chemical weapons stockpile. The Department of State has also provided assistance with destruction of small arms/light weapons (including MANPADS) and heavy munitions as well as support to humanitarian de-mining in Albania.

OTHER DONORS

¶18. (U) The World Bank and IMF have recently extended their agreements with Albania, signing on to a USD 196 million four-year package and a USD 24.7 million three year package, respectively. The Bank considers Albania to be above normal IDA qualifying maximum income figures, but nevertheless is extending IDA assistance on a number of projects. Italy, Greece, Germany, EBRD, EIB and EU institutions also provide substantial assistance to Albania.

POSSIBLE MESSAGES TO THE GOA

¶19. (SBU) Although we anticipate that your discussions with the GoA and any dialogue with the press will likely be focused entirely on the nature of the Threshold Program assistance, we include several of our standard talking points below to address other topics which may come up:

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--We recognize that Albania is working hard to reform its institutions, including by fighting corruption, attracting foreign investment, and consolidating democratic institutions.

--How the government tackles rule of law issues is crucial. It is essential that the government use the institutional framework, good police work, and the judiciary to get the job done in a transparent and fair way. In addition, it is imperative that the government reach consensus with the opposition that this is a national objective that must be implemented and supported by all parties.

--GWOT: Albania has shown itself to be an excellent partner in Iraq and Afghanistan. The USG is grateful for Albania's contribution and we look forward to your continuing support.

--We are pleased that economic growth is a key part of your program. We believe US investment can play an increasingly important role in this. We strongly support investments by major US companies like GE, Lockheed Martin, ASG Power and AMBO. Their success will draw additional foreign capital, both from the US and the international business community.

--Regional Issues: Albania has traditionally played a positive and moderating role in Kosovo and Macedonia. The U.S. will continue to count on this role, particularly as negotiations progress on Kosovo.

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